M E M O R A N D U M

March 22, 2011

TO: Councilmembers

FROM: Craig Howard, Legislative Analyst
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SUBJECT: **Follow-up to OLO Report on Achieving a Structurally Balanced Budget: Consolidation of Agency Group Insurance Programs**

This memorandum responds to a request from Councilmembers Leventhal and Elrich for information on options for consolidating group insurance administration across County Government, Montgomery County Public Schools, and Montgomery College. Specifically, it describes the current group insurance administrative structure; explains the three types of consolidation identified by the Cross-Agency Resource-Sharing Committee for potential cost savings; and discusses issues that would need to be worked through by the agencies as part of implementing any or all of the consolidation options.

Background. Over the past 10 years (FY02-FY11), total agency expenditures on group insurance for active and retired employees (medical, prescription drug, dental, vision, and life insurance) more than doubled. In FY11, County Government, Montgomery County Public Schools (MCPS), and Montgomery College budgeted a combined $383.8 million for active and retiree group insurance expenditures. Projections for the next five years show agency health care costs continuing to increase at an estimated 10% per year.[1]

To date, while the agencies have joined together in competitive bid efforts to choose plan vendors, each agency continues to structure and administer its own group insurance plans for active and retired employees. In December 2010, the Cross-Agency Resource-Sharing Committee (CARS) identified three potential options for achieving cost savings and/or operational efficiencies through consolidating agency group insurance functions.[2]

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[1] OLO Report 2011-2, *Achieving a Structurally Balanced Budget in Montgomery County – Part II: Option for Long-Term Fiscal Balance*, December 7, 2010. FY11 budgeted agency expenditures for group insurance do not include OPEB pre-funding, as none of the agencies made OPEB contribution in FY11.

[2] The CARS Committee consists of the heads of six County agencies (County Government, MCPS, Montgomery College, M-NCPPC, WSSC, and the Housing Opportunities Commission) and the Staff Director of the County Council. The purpose of CARS is to "provide a forum for coordination among Montgomery County agencies that seeks to share ideas/best practices, develop resource-sharing strategies to achieve operational efficiencies, reduce costs and improve the quality of services offered to our residents and businesses."

The rest of this memorandum is organized as follows:

Part A, Current Administrative Structure, reviews the staffing arrangements, costs, and other key components associated with providing group insurance benefits to employees and retirees of County Government, MCPS, and Montgomery College.

Part B, Consolidation Options, defines the three types of group insurance consolidation proposed for review by CARS and explains how each has the potential to produce cost savings and/or operational efficiencies.

Part C, Implementation Considerations, discusses issues identified by CARS or agency staff that would need to be addressed as part of implementing any or all of the consolidation options.

A. Current Administrative Structure

Under current practice, County Government, MCPS, and Montgomery College separately structure and administer the group insurance benefits offered to each agency's respective employees and retirees. This section reviews the following components of the group insurance administrative structure in each agency, all of which are relevant to understanding the potential advantages as well as challenges to the different options for consolidation:

- In-house vs. contracted functions;
- FY11 agency staffing and personnel costs; and
- The number and type of group insurance plans offered.

In-House vs. Contracted Functions. Offering group insurance plans to employees requires agencies to provide numerous "administrative" functions. Agencies can choose to provide these functions in-house, through contracts with plan vendors, or a combination of both.

County Government, MCPS, and Montgomery College have similar approaches to dividing the group insurance administrative functions between agency staff and contractors. Table 1 (on the next page) lists the major group insurance administrative functions, and indicates whether it is performed primarily by agency staff or a contractor.

While the overall breakdown of how the agencies provide the administrative functions related to group insurance are similar, agency staff note that each agency has separate administrative management systems. For example, each agency has different financial management, budgeting, payroll, human resource, procurement, information technology, etc. systems. As a result, the process of enrolling an employee in their selected health plan and coordinating the appropriate deductions from that employee's biweekly paycheck are different in each agency.

In addition, agency staff note that contractors are sometimes hired to provide specialized assistance as needed for functions typically performed by agency staff.

Table 1. Summary of Group Insurance Administrative Functions Performed by Agency Staff vs. Contractors in County Government, MCPS, and Montgomery College

Function	Performed by…	
	Agency Staff	Contractors
Employee eligibility and enrollment – determining eligibility of employees to receive benefits, processing enrollment of employees into selected plans, processing changes to employee enrollment status, etc.	✓	
Employee education, communication, and technical assistance – answering employee questions, preparing and disseminating information on plan provisions, etc.	✓	
Administrative systems management – processing and coordinating employee plan selections with the appropriate human resource, financial, budget, etc. systems	✓	
Data collection and management – collecting, maintaining, analyzing, and reporting statistical and demographic data	✓	
Vendor relations and oversight – managing competitive bid process to select vendors, evaluating vendor performance and overseeing contracts, etc.	✓	
Regulatory compliance – ensuring plan compliance with applicable federal, state, or local laws and/or regulations	✓	
Claims processing – managing and administering the payment/reimbursement process to employees and/or providers		✓
Provider networks – building and maintaining a network of providers under each plan, negotiating reimbursement rates with providers, etc.		✓
Drug formularies – developing and maintaining the list of prescription drugs (generic and brand) covered under each prescription drug plan		✓
Related program administration – administering COBRA and Flexible Spending Accounts		✓
Other – miscellaneous tasks and special projects	✓	✓

FY11 Staffing and Personnel Costs. At OLO's request, each agency provided an estimate of the FY11 staff effort (measured in workyears) dedicated to performing group insurance administrative functions and FY11 total personnel costs associated with those workyears. As shown in Table 2, in FY11, County Government, MCPS, and Montgomery College combined:

- Allocate an estimated 24 workyears to perform group insurance plan administration for over 41,000 plan enrollees; and
- Spent an estimated $2.3 million in agency personnel costs related to group insurance plan administration.

Table 2. FY11 Workyears and Personnel Costs for Agency Group Insurance Administration

Agency and Office/Department	2011 Enrollment* (Medical Plans)	FY11 Budgeted	
		Workyears	Personnel Costs
MCPS, Department of Financial Services	27,115	15.0	$1,320,000
County Government, Office of Human Resources	12,346	7.2	$785,000
Montgomery College, Office of Human Resources	1,824	2.0	$190,000
Total	**41,285**	**24.2**	**$2,295,000**

*Medical plan enrollment for both active and retired employees as of January 1, 2011.

The total number of workyears for each agency do not represent individual positions as some staff perform group insurance administrative functions as one component of their overall duties. For example, the 7.2 workyears of staff effort in County Government come from 12 full-time and 2 part-time positions. Additionally, each agency's workyear total in Table 2 does not include staff from other offices or departments that spend a portion of their time on group insurance-related issues (e.g., budget staff, legal staff).

FY11 Group Insurance Plans. OLO's Part II report on *Long-Term Options for Achieving Fiscal Balance* identified several key components related to each agency's group insurance plans, including plan design, annual plan premiums, and premium cost share arrangements. An additional factor from a group insurance administration perspective is whether agency group insurance plans are self-insured or fully-insured. The distinction between self-insured and fully-insured plans is described below.

- **A self-insured plan** is one where the agency sets aside funding and pays all claims under the plan out of a self-insurance fund. Each year, the agencies (with the assistance of actuaries) calculate the total premiums needed to cover the cost of anticipated claims. The agencies contract with vendors (also referred to as third-party administrators) to administer the self-insured plans, and pay the vendors an administrative fee. The vendor provides access to its network of care providers and processes claims payments on behalf of the agency. For self-insured plans, the agencies are responsible for determining the plan design.

- **A fully-insured plan** is one where a contracted insurance vendor establishes the total premiums each year and the vendor is responsible for paying all claims under the plan. There is no additional administrative fee apart from the premiums paid to vendors under a fully-insured plan. For a fully insured plan, the insurance vendor has products with pre-determined plan designs that it offers to the agencies.

Under both self-insured and fully-insured plans, the agency (and not the vendor) determines the cost share for employees; that is, how much of the annual premium is paid by the employee and how much is paid by the agency.

For each agency and type of group insurance in FY11, Table 4 (on the next page) lists the number of contracted vendors, the specific plans offered, whether or not the plan is self-insured. Each plan is offered to both active employees and retirees unless otherwise noted.

As detailed above, for self-insured plans, each agency pays a fee to each vendor that is selected to administer a group insurance plan. The administrative fee charged by each vendor of a self-insured plan is established through the competitive bid process, and generally equates to a specific monthly fee paid by the agency per plan enrollee.

Table 3 details that the three agencies will pay an estimated $19.4 for vendors to administer self-insured plans in FY11 for over 41,000 plan enrollees. The majority of the administrative fees ($17.1 million or 88%) are associated with medical plans.

The $19.4 million spent on administrative fees for self-insured plans represents about 5% of the agencies combined total cost of providing group insurance to employees in FY11 ($383.8 million).

Table 3. FY11 Administrative Fees for Vendors of Self-Insured Group Insurance Plans

Agency	2011 Enrollment* (Medical Plan)	FY11 Administrative Fees for:		Total
		Medical Plans	Rx, Dental, and Vision Plans	
MCPS	27,115	$11,400,000	$1,412,000	$12,812,000
County Government	12,346	$5,058,000	$822,000	$5,880,000
Montgomery College**	1,824	$646,000	$58,000	$704,000
Total	**41,285**	**$17,104,000**	**$2,292,000**	**$19,396,000**

*Medical plan enrollment for active and retired employees as of January 1, 2011.
**Montgomery College staff report that the College does not pay administrative fees for its prescription plan under the current contract. Instead, the vendor receives the differences between the retail cost of prescription drugs and the price the vendor is able to negotiate with participating pharmacies.

Table 4. FY11 Group Insurance Plans Offered by County Government, MCPS, and Montgomery College

Agency	Vendors/Plans Offered	Self-Insured	Fully-Insured
Medical Plans			
County Government	Carefirst POS (high and standard option)	✓	
	Carefirst Indemnity (retirees only)	✓	
	United Healthcare HMO	✓	
	Kaiser Permanente HMO		✓
MCPS	Carefirst POS (actives only)	✓	
	Carefirst HMO	✓	
	United Healthcare POS (open)	✓	
	United Healthcare POS (closed)	✓	
	United Healthcare HMO	✓	
	Kaiser Permanente HMO		✓
Montgomery College	CIGNA PPO	✓	
	CIGNA POS	✓	
	Kaiser Permanente HMO		✓
Prescription Plans			
County Government	Caremark (high and standard option)	✓	
	Kaiser Permanente		✓
MCPS	Caremark	✓	
	Kaiser Permanente		✓
Montgomery College	Caremark	✓	
	Kaiser Permanente		✓
Dental Plans			
County Government	UCCI PPO	✓	
	UCCI DMO (actives only)		✓
MCPS	Aetna PPO	✓	
	Aetna DMO		✓
Montgomery College	CIGNA PPO	✓	
	CIGNA DMO		✓
Vision Plans			
County Government	National Vision Administrators	✓	
MCPS	National Vision Administrators	✓	
Montgomery College	Vision Service Plan		✓

B. Consolidation Options

The Cross-Agency Resource-Sharing Committee identified three potential options for achieving cost savings and/or operational efficiencies through "consolidation and streamlining" of agency group insurance programs for County Government, MCPS, and Montgomery College:

1. Consolidate the employee medical, dental, and vision benefit plan offerings of County agencies under fewer vendor arrangements;
2. Consolidate the employee benefit plan offerings of County agencies under one administrative unit that supports all agencies; and
3. Establish a uniform plan design for employee benefits across the agencies.

Each of these consolidation options is further explained below, including how the option could lead to cost savings and efficiencies and a summary of CARS' latest recommendations. Part C of this memo (on page 11) identifies potential issues associated with implementing any or all of these options.

OPTION #1: Consolidate the health benefit plan offerings for medical, dental, and vision benefits under fewer vendor arrangements.

As reviewed earlier, most of the agencies' health plans are self-insured, which means that the County pays for the cost of claims but contracts with vendors to administer the health plans by performing functions such as managing the provider network. The only fully insured plans are each agencies' Kaiser Permanente medical and prescription plans and each agencies' dental HMO plan. With these fully insured plans, the County pays insurance premiums and the insurer is financially responsible for enrollees' claims.

In the past, the County agencies have joined in competitive bid efforts to choose plan vendors, but requests for proposals have always included a provision that decisions could vary from agency to agency. At present, there are four different vendors managing 12 medical plans across the three agencies (as shown in on page 6), as well as three different vendors managing dental plans, and two different vendors managing vision plans.

Under this consolidation option, the agencies would jointly agree to select a common vendor (or vendors) for each type of benefit (medical, dental, vision) to achieve savings through the competitive bid process. This approach would also likely reduce the number of plan offerings to two or three per agency; however, plan design could still be different across the agencies.

This option would model the vendor consolidation strategy taken by the agencies for prescription drug coverage, where all three agencies have uniform vendor arrangements despite having different prescription drug plan designs.

Potential Cost Savings and Efficiencies. The CARS group estimated that this option could save between $2-4 million annually combined across the three agencies. The CARS report does not detail how the cost estimate was developed, but notes that "discussions with vendors and analysis of data provided in recent plan bids suggests that lower costs could be achieved."[3]

Savings under this option would occur through the competitive bid process with vendors charging lower administrative fees since they know that a successful bid would result in a contract with all three agencies. Agency staff believe that this approach has likely achieved savings in the administrative costs for prescription drug plans.

As noted on page 5, in FY11, the agencies spend a combined $19.4 million on fees to vendors for administering the various self-insured plans. The $2-4 million in savings estimated by CARS would correspond to a 10-20% reduction in administrative fees over FY11 levels.

CARS' Recommendation. The CARS December report recommended adopting this vendor consolidation option, but with a deferred implementation date of FY13. Specifically, the final report stated: "This is a FY13 initiative that will require some longer term planning and studying. The Benefits Workgroup will begin meeting regularly to jointly address this and other cost savings and resources sharing opportunities."[4]

OPTION #2: Consolidate the health benefit plan offerings of county agencies under one administrative unit that supports all county agencies.

County Government, MCPS, and Montgomery College each assign staff to administer group insurance functions. Currently, an estimated 24 workyears perform these functions across the three agencies for personnel costs totaling about $2.3 million.

As described on page 3, the agencies have similar approaches to dividing the group insurance administrative functions between agency staff and contractors. Agency staff perform functions such as managing employee eligibility and enrollment, overseeing vendor contracts, and responding to employee questions, while contract staff perform functions such as processing claims and maintain provider networks.

Option #2 would create a centralized office that would perform these in-house functions for all agencies. The office could be located within one of the three agencies, within an existing outside entity, or within a new outside entity established for this purpose.

[3] Cross-Agency Resource Sharing Committee, First Quarterly Report of Employee and Retiree Benefits Subcommittee, September 15, 2010.

[4] http://www.montgomerycountymd.gov/content/EXEC/ACAOs/CARS/xls/cars_all_responses_12-08-2010a.xls

Potential Cost Savings and Efficiencies. CARS did not provide an estimated cost savings for this option, but did note four possible efficiencies that could be achieved from a single administrative unit:

- Streamlined administration – currently, each agency had one or more director/division chief/manager positions overseeing group insurance functions.
- Streamlined staff – each agency has benefit staff responsible for vendor relations, enrollment and eligibility, paying carriers, tracking plan experience, rate setting, communicating to plan participants, and liaison with Medicare.
- Improved reporting – broad experience data could stabilize rate and plan experience.
- Consolidated communication of benefits and benefit levels.

As indicated by two of the possible efficiencies noted by CARS – streamlining administration and staff – realizing cost savings from this option would occur if the agencies are able to eliminate redundant positions. Given that the staff would still have to serve the same number of clients (i.e., the employees of all three agencies) and perform the same administrative functions, it is not clear how many positions could be eliminated under this option. The workload for some positions may not be affected by the consolidation, such as positions responsible for responding to phone calls from employees or processing plan enrollment. Additionally, absent a uniform plan design (see Option #3), the staff would still need to be able to provide agency-specific information and services to the enrollees from each agency.

Using the FY11 staffing and personnel cost data to provide a sense of the potential savings under this option, OLO estimates that for every 10% reduction in workyears the agencies combined would achieve approximately $230,000 in savings. This estimate assumes that workyears are eliminated, and not shifted to perform other functions.

As discussed by agency staff, in the short-term, creating a combined administrative unit could require additional operating funds for items such as creating a common record-keeping system, etc. that may offset some of the cost savings. In the long-term, however, a single administrative unit could create opportunities for better levels of service and/or greater cost savings than each agency would be capable of achieving on its own. Examples include:

- Automating plan enrollment
- Providing more information for enrollees online
- Hiring staff with more specialized skills (e.g., speakers of other languages)
- Single contracts for group insurance consultation, underwriting, and OPEB valuation

CARS Recommendation. The CARS December 2010 report recommended that the Employee and Retiree Benefits Subcommittee should continue to research and study this option. Specifically, the report notes that "this is a longer term initiative that should be studied in detail before pursuing" and listed an implementation date of "post FY12."[5]

[5] http://www.montgomerycountymd.gov/content/EXEC/ACAOs/CARS/xls/cars_all_responses_12-08-2010a.xls

OPTION #3: Establish a uniform plan design across the agencies

Currently, County Government, MCPS, and Montgomery College offer multiple group insurance plans and structure those plans differently. As a result of plan design differences, health plans with similar names in different agencies are not the same plan.

Under this option, the agencies would offer employees identical health plans in terms of plan design (e.g., annual deductibles, copays for services). This approach would likely reduce the number of plan offerings to two or three per agency. This option could also include, but would not necessarily require, moving to the same cost share arrangements across agencies.

Potential Cost Savings and Efficiencies. The CARS group did not provide an estimated cost savings for this option. However, agency staff note that this option has the potential for the largest amount of savings. While the first two options are intended to create savings within administrative fees (costing a total of $19.4 million in FY11) and staffing ($2.3 million in FY11), this option could achieve savings within the largest component of group insurance costs, the cost of care utilized by plan enrollees (approximately $363 million in FY11).

The savings from this option would primarily result from changing plan designs to encourage more efficient use of care and/or shifting costs onto employees (e.g., higher copays, limitations on coverage). If this option included a uniform cost share arrangement, savings would be realized if agencies (especially MCPS) paid a smaller share of employees' health benefit premiums than they currently do. Currently, Montgomery College has the lowest employer cost share for active employees, 75%, while MCPS pays 90%-95% and the County Government pays 80% for most employees.

Having a uniform plan design would not provide significant additional administrative savings over and above what could be achieved by consolidating vendor arrangements and agency administration under Options #1 and #2. However, it would likely be easier for vendor and agency staff to provide information to employees if all the plans were identical. Another benefit of this option is that there would be equity among the employees of all the agencies, especially if cost share is included.

CARS Recommendation. The CARS December report recommended that the Employee and Retiree Benefits Subcommittee should continue to research and study this option. Specifically, the report notes that "this is a longer term initiative" that should be discussed in conjunction with Option #2 and listed an implementation date of "post FY12."[6]

[6] http://www.montgomerycountymd.gov/content/EXEC/ACAOs/CARS/xls/cars_all_responses_12-08-2010a.xls

C. Implementation Considerations

As summarized above, these three consolidation options have the potential to achieve cost savings and operational efficiencies. If adopted, CARS (and agency staff) identified several implementation issues with these options, detailed below, that would need to be worked through.

Collective bargaining. All three agencies negotiate over aspects of health benefits as part of the collective bargaining process with their represented employee groups. The collective bargaining agreements between the County Government and MCPS and their respective employee groups contain information on the cost share arrangements between the employer and employee and many aspects of health plan design. Montgomery College's agreements with employee groups include health benefit cost share arrangements, but not aspects of health plan design.

In order to implement a uniform plan design, the agencies would first have to reach a consensus about what the benefits plan design should look like. Then, each agency (in particular County Government and MCPS) could be required to discuss some or all components of the uniform plan with employee groups as part of the collective bargaining process.

Timing of group insurance bid cycles. The agencies recently completed a bid process for medical, dental, vision, and life insurance plans with new three-year pricing agreements and/or contracts that took effect on January 1, 2011. Implementing Options #1 or #3 before the next scheduled bid cycle would require the agencies to end all current agreements with vendors and re-bid contracts under a revised structure.

Disruption for plan participants. Each vendor offers its own network of providers, so contracting with fewer or different vendors means that some employees and retirees would have to switch to a new network of health care providers. This change could be particularly disruptive to employees who are currently undergoing long-term treatment with a provider that may no longer be a part of their available network. On the other hand, if a smaller number of vendors have a larger portion of business from county agencies, they might have additional leverage to recruit providers to participate in their plans and could potentially minimize service disruption.

Organizational location of a central administrative unit. With Option #2, which would consolidate all in-house administrative functions into one unit that serves all agencies, a decision would need to be made on where this centralized administrative unit would be located and who it would report to. The agencies (and associated stakeholders) may not agree on the appropriate location for this administrative function.

Differences in administrative management systems across the agencies. Each agency maintains different management systems for human resources, finance, budget, payroll, information technology, etc. Maintaining unique administrative systems, even with a centralized office, could reduce or eliminate the potential for efficiencies and/or savings.

If you have any questions about information in this memo, please contact Craig Howard in OLO at x77985 or craig.howard@montgomerycountymd.gov.

c: Steve Farber